



UNITED STATES DEPARTMENT OF COMMERCE
Office of Inspector General
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STATEMENT BY

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BEFORE THE
SUBCOMMITTEE ON TELECOMMUNICATIONS,
TRADE, AND CONSUMER PROTECTION
HOUSE COMMITTEE ON COMMERCE

MAY 11, 1999

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to discuss the Office of Inspector General's work related to the Department of Commerce's National Telecommunications and Information Administration (NTIA) and aspects of the Subcommittee's draft reauthorization bill for NTIA. I have attached a list of the OIG reports that will be covered in my testimony.

Our most recent work in NTIA concentrated on audits of the agency's fiscal year 1998 financial statements and its fiscal year 1997 funding decisions with respect to discretionary financial assistance. We have also conducted 10 financial audits of NTIA grantees; an audit of NTIA's Telecommunications and Information Infrastructure Assistance Program (TIIAP); an assessment of the coordination between NTIA's international activities on behalf of the telecommunications industry and the International Trade Administration (ITA), as part of a broad review of the

Department's trade promotion program; and an evaluation of the performance of NTIA's Office of Spectrum Management (OSM).

Financial Statements Audits

An audit of NTIA's financial statements was first performed for fiscal year 1993. The audit, performed by an independent CPA firm under a contract with our office, resulted in an unqualified opinion on NTIA's Statement of Financial Condition, a significant achievement that resulted from the concerted efforts of the bureau's management to implement sound internal controls. An unqualified opinion means that the financial statements present fairly, in all material aspects, the entity's financial position and results of operations.

That achievement continued into subsequent year audits. The audits of NTIA's fiscal year 1994 and 1995 financial statements resulted in unqualified opinions on all financial statements. For fiscal year 1993, the auditors had identified four reportable conditions, but no material weaknesses in internal controls. Reportable conditions are significant deficiencies in the design or operation of an agency's internal control system that could adversely affect its ability to record, process, summarize, and report financial data consistent with the assertions made by management in the financial statements. Material weaknesses represent serious reportable conditions where the design or operation of an internal control component does not minimize the risk that errors, fraud, or noncompliance in material amounts may occur and not be readily detected.

Only one of the four reported conditions was cited again for fiscal year 1994. While the fiscal year 1995 audit found the same reportable condition, the fiscal year 1996 and fiscal year 1997 audits resulted in no reportable conditions.

The latest audit of NTIA's fiscal year 1998 financial statements also resulted in an unqualified opinion on all statements. This is a noteworthy accomplishment, considering that four new financial statements were mandated by OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*. The independent audit firm did not identify any material weaknesses. In fact, the audits have never reported a material weakness for NTIA. However, the firm did cite one reportable condition in the bureau's internal controls over financial reporting of grants. Although the issue affected NTIA, corrective action is not within the purview of NTIA management because NTIA receives its grant accounting services from another Commerce Department bureau.

Government Performance and Results Act of 1993

NTIA, along with other operating units of the Commerce Department and other agencies throughout the federal government, faces many inherent challenges in determining how to best plan and measure its performance in accordance with the Government Performance and Results Act of 1993 (GPRA). Our office has reviewed NTIA's overviews to its financial statements. The overviews provide the linkage between the financial statements and the GPRA requirement that government entities collect and report information on their performance in meeting goals and objectives.

Our review of the draft fiscal year 1997 overview found that (1) it should be more clear and concise, (2) the linkage to the Department's Strategic Plan could be improved, (3) improved financial and program performance data were needed, and (4) the overview needed to discuss positive and negative results. We presented our findings to NTIA management. NTIA was responsive to our comments, making changes and indicating that they would make additional improvements in future years. In our transmittal memorandum to the final audit report, we stated that NTIA should strengthen reported performance measurement data and improve the presentation of information to facilitate trend analysis and assessment of whether target levels of performance have been achieved.

Our review of the fiscal year 1998 overview found that the bureau had incorporated many of our suggestions to strengthen the overview. We informally provided NTIA our observations on the draft fiscal year 1998 overview, including suggestions to (1) discuss the status of Y2K-compliance efforts, (2) strengthen the linkage between the financial statements and the overview, and (3) include more forecasts of potential problem areas. Once again, management was responsive to our suggestions. In our transmittal memorandum to the final audit report, we encouraged the bureau to strengthen next year's discussion of actual results and to continue efforts to improve performance measurement and reporting.

Year 2000 (Y2K) Compliance

NTIA has reported significant progress in ensuring that its computer systems and proprietary software will be operational after the turn of the century. NTIA has two mission-critical systems.

The first is used by the Office of Spectrum Management in managing the government spectrum, and the second is used by the Office of Telecommunications and Information Applications (OTIA) in managing its grants process.

OSM has tested for and corrected the Y2K problems in its systems, and is already processing data with dates into the next century. A contractor has rewritten OTIA's grants management software. According to NTIA, both systems have been subsequently tested and certified as Y2K-compliant.

Discretionary Financial Assistance Program Performance Audits and Grantee Audits

In March of this year, we completed audits of NTIA's two discretionary financial assistance programs: (1) the Public Telecommunications Facilities Program (PTFP), and (2) the Telecommunications and Information Infrastructure Assistance Program (TIIAP). Discretionary financial assistance programs are those programs for which federal agencies have the authority to independently determine the recipients and funding levels of awards. These programs involve a significant portion of NTIA's budget and operations, about \$35 million in fiscal year 1997 awards and \$38 million in fiscal year 1998 grants. These audits were conducted as part of a Department-wide review of Commerce's discretionary financial assistance programs initiated at the request of the Chairman of the Senate Commerce, Science, and Transportation Committee.

Through PTFP, NTIA provides financial assistance for planning, acquiring, installing, and modernizing public telecommunications facilities. In fiscal year 1997, the program received

221 applications for more than \$50.5 million. Of these, 215 were accepted for review, and 97 grants totaling more than \$14.1 million were awarded. All 97 awards were made competitively in response to a formal solicitation notice published in the *Federal Register*, posted on NTIA's Internet web site, and mailed to over 3,000 potential applicants on NTIA's mailing list.

Through TIIAP, NTIA provides financial assistance to nonprofit organizations, colleges and universities, and state, local and Indian tribal governments, to promote the widespread use of telecommunications and information technologies in the public and nonprofit sectors. In fiscal year 1997, the program received more than 920 applications for over \$350 million; 876 were accepted for review; and 55 grants totaling almost \$20.9 million were awarded. All 55 awards were made competitively in response to a formal solicitation notice published in the *Federal Register*, posted on NTIA's Internet web site, and mailed to over 18,000 potential applicants.

We examined NTIA's criteria, procedures, and practices for soliciting, reviewing, and selecting awards under both programs and found that they generally complied with statutory, Departmental, and agency requirements and appeared designed to promote merit-based funding decisions. We found that NTIA (1) developed and published merit-based technical and public policy criteria that were consistent with the programs' objectives and (2) complied with the Departmental and agency requirement to place a notice in the *Federal Register*, at least annually, announcing the availability of funds, soliciting award applications, and specifying the criteria and process to be used in reviewing and selecting applications.

We also found that NTIA followed established requirements for the competitive review of applications for TIIAP, but not totally for PTFP. Specifically, NTIA program staff participated in review panels for PTFP awards and routinely adjusted the independent reviewers' scores or composite evaluation scores without consulting with the reviewers. The staff adjusted either the score given by the independent reviewer(s) or the review panel's composite score, without consulting with the panel, for 191 of the 215 applications, or almost 90 percent of the applications reviewed by the panels. The program staff adjusted 153 applications to a higher score and 38 applications to a lower score. The program staff stated that the adjustments were made to correct applications misjudged or unfairly scored by the external reviewers. Unilateral adjustment of evaluation scores has the potential to undermine the independence and objectivity of the review process. NTIA officials determined, prior to the audit, that they would not repeat the practice in fiscal year 1998.

Moreover, although Departmental and NTIA requirements for selecting applications were followed for both programs, documentation was lacking to fully explain the reasons for deviations from the program directors' lists of applications recommended for funding. For the year reviewed, we found that the Assistant Secretary for Communications and Information, as the selecting official, added three applications to the PTFP list, and added nine applications to and deleted seven applications from the TIIAP recommended funding list. A memorandum concerning the additional PTFP applications noted that the selecting official's decision was made to achieve greater geographical distribution, but did not provide specific reasons why certain applicants were selected over others. The Assistant Secretary provided justifications for the nine

added TIIAP applications, but there were no written justifications for any of the seven deleted applications.

We recommended that NTIA ensure that the bases for making awards that deviate from a program director's recommendations are adequately documented. Additionally, we recommended that PTFP staff ensure that independent reviewers' scores are not adjusted by program staff during the review process. NTIA agreed with our findings and recommendations and modified its award process for fiscal year 1998 to implement our recommendations.

We have also performed financial audits of grants awarded under these financial assistance programs to ensure that grantees adequately account for the use of award funds. Since October 1995, we have issued 10 OIG audit reports related to recipients of NTIA financial assistance. In that period, we also processed 236 Single Audit Act reports that covered \$56.7 million of NTIA funding. These audits did not identify any major or systemic problems with recipients of NTIA financial assistance.

Performance Audit: "Information Superhighway" Program

NTIA's Office of Telecommunications and Information Applications (OTIA) is responsible for managing the TIIAP program, also known as the "Information Superhighway" program. We reviewed several program grants in 1996. Our reviews of those grants disclosed programmatic and financial problems, which were attributable in large part to inadequate program management staffing. For example, OTIA program officers did not normally visit grantees and only rarely

contacted them by telephone, conducted only perfunctory reviews of grantee status reports and took no action when significant problems were indicated, and did not ensure that grantees were aware of federal grant requirements, particularly those pertaining to matching funds. Moreover, OTIA did not require independent evaluations of grant results, did not have a mechanism for grantees to exchange useful information with each other, and required program officers to perform routine administrative work to the detriment of their monitoring responsibilities.

OTIA officials agreed with our findings, but said that because of spending and staffing restrictions, they lacked the resources to properly monitor grants. These restrictions were lifted in the summer of 1996, and NTIA officials took a number of significant actions to implement our recommendations. For example, OTIA established an on-site monitoring program and conducted visits of 25 grantees from August through October of 1996; and instructed its program officers to make detailed analyses of grantee status reports, contact grantees if the reports indicate any problem areas or concerns, and forward the analyses to the Department for appropriate action.

Inspection Report: Coordination on International Telecommunications Issues

In a recent inspection report, we found that despite NTIA's participation in international telecommunications policy forums, there is relatively little cooperation between NTIA and the International Trade Administration. In fact, ITA's Office of Telecommunications within the Office of Trade Development has its own staff working on many of the same issues as NTIA's staff. Not only is there an overlap of duties, but the roles and responsibilities of each agency for

telecommunications policy initiatives and the advancement and promotion of U.S. telecommunication interests abroad have not been clearly defined.

We recommended that the Assistant Secretary for Communications and Information and the Under Secretary for International Trade (1) formally agree on their agencies' respective roles and responsibilities in telecommunications export promotion and trade policy development, and (2) seek to immediately expand cooperation between NTIA and ITA offices and staffs. In response to our draft report, the Assistant Secretary of NTIA generally concurred with our findings on its relationship with ITA, but noted a positive working relationship with certain components of the ITA.

Inspection Report: Interagency Agreements With Institute for Telecommunication Sciences

In January 1994, we issued a final report on our review of NTIA's interagency agreements that were performed for, and reimbursed by, other agencies, focusing on those agreements conducted by the Institute for Telecommunication Sciences (ITS). We examined the relationship between the work ITS performs through such agreements and NTIA's core mission, the benefits NTIA receives from those agreements, the amount of resources involved, and the adequacy of oversight by NTIA senior management. We found the following:

1. The growth in the volume of reimbursable projects had shifted much of the focus of the lab's work to projects that were remotely, if at all, related to Commerce Department

priorities. Because of the volume of the reimbursable work, the size and staffing of the lab was larger than needed to accomplish the primary mission of NTIA and the Department.

2. The increase in lab operating costs, due almost exclusively to the growth of reimbursable projects, resulted in an unending cycle of employment growth and increased funding requirements. Senior managers were dissatisfied with the amount of time spent soliciting new projects.
3. ITS routinely entered into reimbursable agreements with the Defense Department in the last few days of the fiscal year, resulting in carryovers of funds to the next fiscal year. This practice raised serious questions about the propriety and legality of NTIA's obligating and expending "one-year" funds in the next fiscal year.

We recommended that NTIA (1) focus ITS's work on the priorities of the Department and NTIA; (2) seek alternative procedures for improving the lab's efficiency at handling reimbursable projects; (3) ensure that reimbursable "one-year" funds are properly obligated in the year received; and (4) return all reimbursable funds that were not obligated by the end of the prior fiscal year to the sponsoring agency.

Other Correspondence: Performance Reviews of Office of Spectrum Management

In October 1997, we completed a review of the performance of NTIA's Office of Spectrum Management. The review included a detailed examination of OSM's funding, fee collection, and

staffing practices. Although our field work revealed no significant conditions meriting the issuance of an audit report, we found several issues warranting management's attention, which we discussed in a memorandum to the Assistant Secretary for Communications and Information.

Specifically, resource assessments essential for effective long-range federal spectrum planning had not been performed; hardware and software had not been maintained to meet current and future needs; and inadequate support had been provided for national and international policy development and execution. OSM also lacked the personnel to fulfill its responsibility of ensuring that other federal agencies were complying with the conditions of their spectrum authorizations and using the limited spectrum efficiently, or that radio interference problems were quickly detected and corrected. We noted that these deficiencies might be exacerbated because a large percentage of the OSM work force would become eligible for retirement within three years. Furthermore, Interdepartment Radio Advisory Committee member agencies had not promptly paid their fiscal year 1997 spectrum management fees to NTIA.

We suggested that NTIA (1) evaluate the work that OSM had been unable to perform, determine priorities within the context of the agency's strategic plan, and begin planning to replace OSM staff who might retire within the next three years; and (2) take appropriate action to collect fiscal year 1998 spectrum management fees in a timely fashion.

Also, in November 1997, we completed an audit of the role of OSM in the Federal Communications Commission's (FCC) decisions to relocate Digital Electronic Messaging Service

(DEMS) licenses and award a license to a specific company. We conducted a detailed review of OSM's actions to determine whether NTIA met its statutory responsibilities for federal spectrum management with respect to these decisions. Again, our audit work revealed no significant conditions meriting the issuance of an audit report. We found that OSM officials acted properly and protected government interests by offering spectrum for the FCC to use in the relocation of spectrum allocated for DEMS licensees. OSM officials also followed established procedures for consulting with the Interdepartment Radio Advisory Committee on the use of federal spectrum.

We noted, however, that an FCC licensing bureau had issued DEMS licenses without the knowledge of FCC headquarters or OSM officials, even though the technology interfered with existing licenses for federal government satellite operations and with the planned use by private-sector satellite communications systems for which the U.S. government had negotiated an international agreement. In a memorandum to the Assistant Secretary for Communications and Information, we suggested that NTIA work with the FCC to establish a real-time licensing information system between FCC licensing bureaus and OSM that would reduce the likelihood of issuing licenses that interfere with federal spectrum use.

OIG Comments on Discussion Draft of Reauthorization Bill

We have reviewed the discussion draft of the proposed reauthorization bill and have these comments:

1. Section 3 of the draft, "Payment for Spectrum Management Functions," requiring federal agencies to reimburse NTIA for its federal spectrum management activities, is consistent with our findings during the aforementioned review of OSM. During the year under review, fiscal year 1997, NTIA and OSM experienced severe difficulties in collecting fees required under the appropriations act for that year. During fiscal year 1998, these fees were paid in a more timely manner by the other federal agencies. These fees should be paid by federal agencies throughout the fiscal year, and not just near the end, since OSM conducts its spectrum management activities on a continuous basis.
2. Section 5 of the draft, "Long-Term Efficiency," includes a requirement for the OIG to "conduct an audit or evaluations of the performance of the NTIA in conducting each of its functions, programs, and operations" and report the results and recommendations to the Congress and NTIA. It may be helpful to point out that under the basic Inspector General legislation, we already have the authority to audit and review the topics itemized in the proposed bill. Consequently, we view section 5 as an unnecessary provision. For example, we are currently considering performance audits of the PTFP and TIIAP programs to evaluate both program management and program performance. Of course, we would be pleased to discuss audit and evaluation areas with Members of the Committee and staff to ensure that our efforts address key areas of interest.

That concludes my testimony. I would be pleased to answer any questions that the Members of the Committee would have.

SUMMARY OF MAJOR POINTS

GEORGE E. ROSS, ASSISTANT INSPECTOR GENERAL FOR AUDITING

MAY 11, 1999

- Based on our reviews, NTIA is generally a well-managed agency whose leadership has responded positively to our recommendations for improvements.
- NTIA's financial statements have received unqualified audit opinions since FY 1994.
- NTIA is working to meet GPRA performance measurement and reporting requirements.
- NTIA reports that its two OSM and OTIA mission-critical systems are Y2K-compliant.
- NTIA's criteria, procedures, and practices for soliciting, reviewing, and selecting FY 1997 discretionary awards under the PTFP and TIIAP grant programs generally complied with statutory, departmental, and agency requirements and appeared designed to promote merit-based funding decisions.
- Our 1996 audit of the "Information Superhighway" program disclosed grant monitoring problems that NTIA promptly corrected.
- There is relatively little cooperation between NTIA and the International Trade Administration in telecommunications export promotion and trade policy development.
- In 1994, NTIA needed to focus its Institute for Telecommunication Sciences on departmental and agency priorities and improve controls over its reimbursable work.
- Recent reviews of the Office of Spectrum Management and its role in an FCC spectrum licensing decision did not identify any significant conditions that warranted audit reports.
- Section 3 of the draft authorization bill, requiring federal agencies to reimburse NTIA for its federal spectrum management activities, is consistent with our findings.
- Section 5 of the discussion draft, requiring an OIG audit or evaluations of NTIA's performance, is unnecessary under existing IG legislation. The OIG would be pleased to confer with the Subcommittee to ensure that OIG efforts address key areas.

**OIG REPORTS RELATED TO NTIA
JANUARY 1994 THROUGH MARCH 1999**

Financial Statements Audits

- *Financial Statements for FY 1998*, Final Report No. FSC-10870 (March 1999)
- *Financial Statements for FY 1997*, Final Report No. FSC-9866 (March 1998)
- *Financial Statements for FY 1996*, Final Report No. FSC-8842 (February 1997)
- *Financial Statements for FY 1995*, Final Report No. FSD-7697 (March 1996)
- *Financial Statements for FY 1994*, Final Report No. FSD-7106 (March 1995)
- *Financial Statements for FY 1993*, Final Report No. FSD-6427 (November 1994)
- *Financial Statements Preparation and Auditing Survey*, Final Report No. FSD-6103 (March 1994)

Performance Audits

- *Public Telecommunications Facilities Program Award Process Promotes Merit-Based Decisions, But Process Needs More Discipline*, Final Report No. ATL-10945 (March 1999)
- *Telecommunications and Information Infrastructure Assistant Program Award Process Promotes Merit-Based Decisions, But Process Needs More Discipline*, Final Report No. ATL-10946 (March 1999)
- *“Information Superhighway” Program Oversight Strengthened*, Final Report No. TID-8427 (January 1997)

Financial Assistance Audits

- *United Cerebral Palsy Associations, Inc., DC*, Final Report No. ATL-10378 (September 1998)
- *HandsNet, Inc., CA*, Final Report No. STL-10522 (March 1998)
- *Association of Bay Area Governments, CA*, Final Report No. STL-09491 (November 1997)
- *Massachusetts Corporation for Educational Telecommunications*, Final Report No. ATL-9631 (September 1997)
- *Bridgeport Futures, CT*, Final Report No. ATL-8844 (August 1997)

**OIG REPORTS RELATED TO NTIA
JANUARY 1994 THROUGH MARCH 1999**

Financial Assistance Audits (continued)

- *LatinoNet, CA*, Final Report No. STL-8890 (August 1997)
- *Public Library of Charlotte and Mecklenburg County, NC*, Final Report No. ATL-8689 (February 1997)
- *Marshall Heights Community Development Org., D.C.*, Final Report No. ATL-8636 (September 1996)
- *Georgia Division of Public Health*, Final Report No. ATL-8637 (September 1996)
- *United Neighborhood Houses of New York, Inc.*, Final Report No. ATL-7727 (October 1995)

Inspection Reports

- *Management Improvements Needed to Better Prepare for the Export Challenges of the 21st Century*, IPE-9904 (March 1999)
- *Inspection of NTIA Interagency Agreements, Institute for Telecommunication Sciences*, IRM-5723 (January 1994)

Other Correspondence

- *Closeout of Audit of Role of Office of Spectrum Management in FCC Relocation and Licensing Decision* (November 1997)
- *Closeout of Audit of the Office of Spectrum Management* (October 1997)



BIOGRAPHY

GEORGE E. ROSS

ASSISTANT INSPECTOR GENERAL FOR AUDITING U.S. DEPARTMENT OF COMMERCE

As Assistant Inspector General for Auditing, Mr. Ross is responsible for all Office of Inspector General audits, including financial statement audits, financial-related audits, and performance audits. Other responsibilities include Single Audit Act functions and indirect cost rate negotiations. The Office of Audits, with about 90 personnel, consists of four headquarters divisions and regional offices in Atlanta, Denver, and Seattle.

Mr. Ross had served as the Assistant Inspector General for Audit Resolution and Administration, with responsibility for all OIG support functions, including acquisitions, budget, human resources, information technology, publications, and quality assurance. Previously, as Assistant Inspector General for Compliance and Audit Resolution, he had been responsible for audit resolution and follow-up and the OIG's internal quality assurance program covering audits, inspections, and investigations.

Mr. Ross came to Commerce in June 1990 from the Department of Veterans Affairs. His assignments involved positions at the Boston VA Medical Center and VA's Central Office, including Special Assistant to the Deputy Administrator and Executive Assistant to both the Associate Deputy Administrator for Administration and the Associate Deputy Administrator for Planning and Finance.

Prior to joining VA in 1981, Mr. Ross held a series of positions in the Department of Energy's Office of Conservation and Renewable Energy, Office of the Chief Financial Officer, and Office of Resource Applications. Key responsibilities included liaison with the Office of Inspector General and external auditors and investigators.

From 1972 to 1978, Mr. Ross worked as a financial assistance specialist with Commerce's National Marine Fisheries Service in Gloucester, Massachusetts. He assumed that position following active duty with the Air Force Audit Agency. He retired as a U.S. Air Force reservist in 1991 with the rank of Lieutenant Colonel.

Mr. Ross received an A.B. degree in political science from Tufts University, obtained both J.D. and M.B.A. degrees from Boston University, and was admitted to the Massachusetts Bar. He recently completed an International Business Management Program at Georgetown University.